

Message Text

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51

ACTION AF-18

INFO OCT-01 ARA-16 EUR-25 EA-11 NEA-10 ISO-00 IO-14 EB-11

COME-00 INT-08 SCI-06 SCEM-02 TRSE-00 OMB-01 CIEP-02

STR-08 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00

NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20 USIA-15

ACDA-19 DRC-01 /230 W

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R 151538Z NOV 73

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 1795

INFO AMEMBASSY ABIDAJN

AMEMBASSY ACCRA

AMEMBASSY CARACAS

AMEMBASSY FREETOWN

AMEMBASSY JAKARTA

AMEMBASSY LONDON

AMEMBASSY MONROVIA

AMEMBASSY OTTAWA

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY BONN

OECD PARIS 3725

C O N F I D E N T I A L LAGOS 9191

E.O. 11652: GDS

TAGS: ENRG, NI

SUBJECT: THE FIRST GREAT CRUDE OIL SALE

REF: LAGOS 8371, 8687

1. SUMMARY. NOVEMBER 15 CLIMAXES THE NIGERIAN GOVERNMENT'S FIRST BIG SALE OF PARTICIPATION AND ROYALTY CRUDE OIL. COMPANIES FROM ALL OVER THE WORLD ARE GATHERED IN LAGOS TO SUBMIT OFFERS FOR CRUDE WORTH ABOUT \$1 BILLION. THEY ARE HOPING FOR AN EARLY ANNOUNCE-
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MENT OF THE WINNERS, BUT UNCERTAINTY STILL SURROUNDS NOT ONLY THE

DELIVERY DATE AND PRICE (WHICH MAY EXCEED \$10 PER BARREL) BUT ALSO THE QUANTITY OF AVAILABLE OIL (SOME 300,000 BARRELS PER DAY IF ROYALTY OIL IS ACTUALLY SOLD BUT ONLY 75,000 B/D IF PARTICIPATION OIL ALONE IS SOLD). END SUMMARY.

2. AFTER MONTHS OF FALSE STARTS, NIGERIAN CRUDE OIL SALE WAS REACHING DECISION POINT JUST AS PERSIAN GULF STATES RAISED PRICE AND ARAB STATES CUT PRODUCTION. POTENTIAL BUYERS GIVEN UNTIL NOVEMBER 15 TO SUBMIT REVISED OFFERS, AND MOST ARE NOW IN LAGOS IN ORDER DETERMINE THE MARKET AND MAKE LAST MINUTE REVISIONS. AMERICANS AND JAPANESE PREDOMINATE, BUT GERMANS AND OTHERS ALSO SAID TO BE OFFERING STRONG COMPETITION. NIGERIAN NATIONAL OIL CORPORATION (NNOC) IS RECEIVING THE OFFERS, BUT THE AWARDS ARE EXPECTED TO BE DECIDED BY COMMISSIONER OF MINES AND POWER MUNGUNO, PERMANENT SECRETARY (AND NNOC CHAIRMAN) ASIODU, OR POSSIBLY EVEN THE CHIEF OF STATE.

3. NNOC IS NOT KNOWN FOR CERTAIN TO HAVE RECEIVED OFFERS ABOVE \$9 PER BARREL, BUT THE "MARKET" IS HOVERING AROUND THAT MARK, AND SOME BUYERS EXPECT IT TO GO HIGHER. THEY ARE HOPING 6-8 OF THEM WILL DEVIDE ABOUT 300,000 BARRELS PER DAY STARTING JANUARY 1, 1974, BUT NNOC RECENTLY INDICATED LIFTINGS MIGHT NOT START UNTIL MARCH 1, 1974. IF 300,000 B/D ARE SOLD FOR ANYTHING OVER \$9.13 A BARREL, THE TOTAL VALUE IN ONE YEAR WILL EXCEED \$1 BILLION. IF THE LOCAL AGENTS OF THE FOREIGN BUYERS RECEIVE AN AVERAGE OF FIVE CENTS PER BARREL (AND THIS ESTIMATE IS CONSERVATIVE), THERE WILL BE AT LEAST \$5.5 MILLION TO DIVIDE AMONG NIGERIAN PARTICIPANTS IN THE SALE.

4. ONE MAJOR UNCERTAINTY IS THE QUANTITY OF OIL AVAILABLE FOR SALE BY THE NNOC. THE FOLLOWING ESTIMATES OF THE MAXIMUM WHICH COULD BE AVAILABLE DEPEND ON EMBASSY GUESSES CONCERNING THE OUTCOME OF PENDING PARTICIPATION AND BUYBACK NEGOTIATIONS. (QUANTITIES IN BARRELS PER DAY.)

	WEIGHED TOTAL	PERCENT PERCENT	ROYALTY ROYALTY	PERCENT PARTI- OIL	ROYALTY PARTI- CIPATION	ROYALTY CIPATION
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SHELL-BP	1,300,000	10	130,000	35	15,000	
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GULF	370,000	12.4	46,000	40	13,000	
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MOBIL	260,000	12.5	32,000	40	9,000	
AGIP/PHILLIPS	200,000	10	20,000	33.33	60,000	
SAFRAP	60,000	10	6,000	35	19,000	
TEXACO/CHEVRON	10,000	12.5	1,000	0	0	
TOTAL:	2,200,000		235,000		116,000	
LESS EXISTING CONTRACT WITH TENNECO:				0	-40,000	
TOTAL AVAILABLE NOW:			235,000		76,000	

IF NNOC COMMITS 300,000 B/D, IT MUST BE COUNTING ON THE FULL AMOUNT OF ROYALTY OIL. BUT THE FMG CAN ALWAYS "SELL" ROYALTY OIL TO THE PRODUCING COMPANIES AT POSTED PRICE (CURRENTLY \$8.310 PER BARREL), AND

IF NNOC CAN SELL IT FOR MORE, SOME OFFICIALS ARE CERTAIN TO RECOMMEND RAISING THE POSTED PRICE INSTEAD AND THEREBY COLLECTING YET GREATER AMOUNTS IN TAXES. FROM THIS, IT IS POSSIBLE TO SUPPOSE THAT THE GREAT OIL SALE MIGHT IN FACT BE DEvised TO BRING UPWARD PRESSURE ON THE POSTED PRICE WITHOUT THE GOVERNMENT ACTUALLY INTENDING TO SELL ANY ROYALTY OIL.

5. THE PUZZLING ATMOSPHERE SURROUNDING THE SALE IS ILLUSTRATED BY FOLLOWING DIRECT QUOTATIONS:

A. MARKETING MANAGER (W.O. UWAMU), NIGERIAN NATIONAL OIL CORPORATION: "NNOC HAS 300,000 B/D TO SELL, AND I'M NOT ACCEPTING OFFERS FOR ANYTHING LESS THAN \$8.75 PER BARREL."

B. DIRECTOR OF PETROLEUM RESOURCES (M.O. FEYIDE), MINISTRY OF MINES AND POWER: "NNOC PAYS ROYALTIES AND TAXES LIKE ANY OTHER COMPANY. I DON'T KNOW ANYTHING ABOUT THE QUANTITIES OF OIL UWAMU THINKS HE HAS TO SELL OR WHAT PRICE HE HOPES TO GET. THE COMMISSIONER'S SEPTEMBER 27 STATEMENT (THAT APPLICATIONS FOR THE PURCHASE OF ROYALTY OIL SHOULD BE DIRECTED TO THE MINISTRY, NOT NNOC) MEANS WHAT IT SAYS."

C. MANAGING DIRECTOR, MAJOR PRODUCING COMPANY: "I DON'T THINK NNOC WILL EVER GET A DROP OF ROYALTY OIL BECAUSE THE GOVERNMENT WILL SIMPLY RAISE THE POSTED PRICE IF NNOC CAN SELL IT FOR MORE THAN \$8.31. BESIDES, THE GOVERNMENT HASN'T SAID ANYTHING TO US ABOUT ROYALTY OIL SINCE LAST AUGUST. THE WHOLE BUSINESS IS SHAMEFUL BECAUSE OFFERING MORE AND MORE MONEY PER BARREL IS NOT IN THE CONSUMING COUNTRIES' BEST INTEREST."

D. CRUDE OIL BUYER, U.S. MAJOR NOT OPERATING IN NIGERIA:
"A COMPANY OUR SIZE WOULD BE IRRESPONSIBLE TO OFFER MUCH MORE THENA POSTED PRICES. WE EXPECT TO GET SOME OF THE OIL BECAUSE THE NIGERIANS
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RESPECT OUR POSITION AND WILL REFUSE TO SELL ALL THEIR OIL AT SKY-HIGH PRICES TO FLY-BY-NIGHT OUTFITS."

E. CRUDE OIL BUYER, LARGE U.S. INDEPENDENT EXPERIENCED IN NIGERIA:

"THE NIGERIANS WILL SELL THE ROYALTY OIL BECAUSE EVERYBODY IN THE MINISTRY AND THE NNOC IS GOING TO BE VERY RICH A YEAR FROM NOW IF THEY DO AND WON'T BE IF THEY DON'T. I THINK IT WILL SELL FOR \$10 A BARREL, BUT IF THE OTHER BUYERS OFFER \$12, I'M PREPARED TO MATCH IT. I WILL NOT BE OUTBID BY THE JAPANESE FOR NON-EMBARGOED OIL."

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Message Attributes

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Control Number: n/a
Copy: SINGLE
Draft Date: 15 NOV 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
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ISecure: 1
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30 JUN 2005

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Review Withdrawn Fields: n/a
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TAGS: ENRG, ETRD, NI, NNOC (NIGERIAN NATIONAL OIL CORP)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005